

*Entertainment
Industry
Economics*

A guide for financial analysis

SIXTH EDITION

Harold L. Vogel

 **CAMBRIDGE**
UNIVERSITY PRESS

PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE
The Pitt Building, Trumpington Street, Cambridge, United Kingdom

CAMBRIDGE UNIVERSITY PRESS
The Edinburgh Building, Cambridge CB2 2RU, UK
40 West 20th Street, New York, NY 10011-4211, USA
477 Williamstown Road, Port Melbourne, VIC 3207, Australia
Ruiz de Alarcón 13, 28014 Madrid, Spain
Dock House, The Waterfront, Cape Town 8001, South Africa
<http://www.cambridge.org>

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First edition 1986
Second edition 1990
Third edition 1994
Fourth edition 1998
Fifth edition 2001
Sixth edition 2004

Printed in the United States of America

Typeface Times Roman 10.75/12 pt. *System* L^AT_EX 2_ε [TB]

A catalog record for this book is available from the British Library.

Library of Congress Cataloging in Publication Data

ISBN 0 521 83612 3 hardback

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1

Economic perspectives

To everything there is a season, and a time to every purpose
under the heaven. – Ecclesiastes

Extending this famous verse, we can also say that there is a time for work and a time for play. There is a time for leisure.

An important distinction, however, is to be made between the precise concept of a time for leisure and the semantically different and much fuzzier notion of *leisure time*, our initial topic. In the course of exploring this subject, the fundamental economic forces that affect spending on all forms of entertainment will be revealed, and our understanding of what motivates expenditures for such goods and services will be enhanced. Moreover, the perspectives provided by this approach will enable us to see how entertainment is defined and how it fits into the larger economic picture.

1.1 Time concepts

Leisure and work

Philosophers and sociologists have long wrestled with the problem of defining *leisure* – the English word derived from the Latin *licere*, which means “to be permitted” or “to be free.” In fact, as Kraus (1978, p. 38) and Neulinger

(1981, pp. 17–33) have noted, leisure has usually been described in terms of its sociological and psychological (state-of-mind) characteristics.¹

The classical attitude was epitomized in the work of Aristotle, for whom the term *leisure* implied both availability of time and absence of the necessity of being occupied (De Grazia 1962, p. 19). According to Aristotle, that very absence is what leads to a life of contemplation and true happiness – yet only for an elite few, who would not have to provide for their daily needs. Veblen (1899) similarly saw leisure as a symbol of social class. To him, however, it was associated not with a life of contemplation, but with the “idle rich,” who identified themselves through its possession and its use.

Leisure has more recently been conceptualized either as a form of activity engaged in by people in their free time or, preferably, as time free from any sense of obligation or compulsion.² As such, the term *leisure* is now broadly used to characterize time not spent at work (where there is an obligation to perform). Naturally, in so defining leisure by what it is not, metaphysical issues remain largely unresolved. There is, for instance, a question of how to categorize work-related time such as that consumed in preparation for, and in transit to and from, the workplace. And sometimes the distinctions between one person’s vocation and another’s avocation are difficult to draw: People have been known to “work” pretty hard at their hobbies.

Although such problems of definition appear quite often, they fortunately do not affect analysis of the underlying concepts.

Recreation and entertainment

In stark contrast to the impressions of Aristotle or Veblen, today we rarely, if ever, think of leisure as contemplation or as something to be enjoyed only by the privileged. Instead, “free” time is used for doing things and going places, and the emphasis on activity more closely corresponds to the notion of recreation – refreshment of strength or spirit after toil – than to the views of the classicists.

The availability of time is, of course, a precondition for recreation, which can be taken literally as meaning re-creation of body and soul. But because such active re-creation can be achieved in many different ways – by playing tennis, or by going fishing, for example – it encompasses aspects of both physical and mental well-being. As such, recreation may or may not contain significant elements of amusement and diversion or occupy the attention agreeably. For instance, amateurs training to run a marathon might arguably be involved in a form of recreation. But if so, the entertainment aspect here would be rather minimal.

As noted in the preface, however, entertainment is defined as that which produces a pleasurable and satisfying experience. The concept of entertainment is thus subordinate to that of recreation: It is more specifically defined through its direct and primarily psychological and emotional effects.

Time

Most people have some hours left over – “free time,” so to speak – after subtracting the hours and minutes needed for subsistence (mainly eating and sleeping), for work, and for related activities. But this remaining time has a cost in terms of alternative opportunities forgone.

Because time is needed to use or to consume goods and services as well as to produce them, economists have attempted to develop theories that treat it as a commodity with varying qualitative and quantitative cost features. However, as Sharp (1981) notes in his comprehensive coverage of this subject, economists have been only partially successful in this attempt:

Although time is commonly described as a scarce resource in economic literature, it is still often treated rather differently from the more familiar inputs of labor and materials and outputs of goods and services. The problems of its allocation have not yet been fully or consistently integrated into economic analysis. (p. 210)

Nevertheless, investigations into the economics of time, including those of Becker (1965) and DeSerpa (1971), have suggested that the demand for leisure is affected in a complicated way by the cost of time to both produce and consume. For instance, according to Becker (see also Ghez and Becker 1975):

The two determinants of the importance of forgone earnings are the amount of time used per dollar of goods and the cost per unit of time. Reading a book, getting a haircut, or commuting use more time per dollar of goods than eating dinner, frequenting a nightclub, or sending children to private summer camps. Other things being equal, forgone earnings would be more important for the former set of commodities than the latter.

The importance of forgone earnings would be determined solely by time intensity only if the cost of time were the same for all commodities. Presumably, however, it varies considerably among commodities and at different periods. For example, the cost of time is often less on weekends and in the evenings. (Becker 1965, p. 503)

From this it can be seen that the cost of time and the consumption-time intensity of goods and services (e.g., intensity, or commitment, is usually higher for reading a book than reading a newspaper) are significant factors when selecting from among entertainment alternatives.

Expansion of leisure time

Most of us do not normally experience sharp changes in our availability of leisure time (except on retirement or loss of job). Nevertheless, there is a fairly widespread impression that leisure time has been trending steadily higher ever since the Industrial Revolution of more than a century ago. Yet the evidence on this is mixed. Figure 1.1 shows that in the United States the largest increases in leisure time – workweek reductions – for agricultural and nonagricultural industries were achieved prior to 1940. But more recently, the lengths of average workweeks, as adjusted for increases in holidays and vacations, have scarcely changed for the manufacturing sector and have also stopped declining in the services sector (Table 1.1 and Figure 1.2). By

Table 1.1. *Average weekly hours at work, 1948–1995^a, and median weekly hours at work for selected years^b*

Average hours at work			Median hours at work	
Year	Unadjusted	Adjusted ^c	Year	Hours
1948	42.7	41.6	1973	40.6
1956	43.0	41.8	1975	43.1
1962	43.1	41.7	1980	46.9
1969	43.5	42.0	1984	47.3
1975	42.2	40.9	1987	46.8
1986	42.8		1995	50.6

^a Nonstudent men in nonagricultural industries. *Source:* Owen (1976, 1988).

^b *Source:* Harris (1995).

^c Adjusted for growth in vacations and holidays.

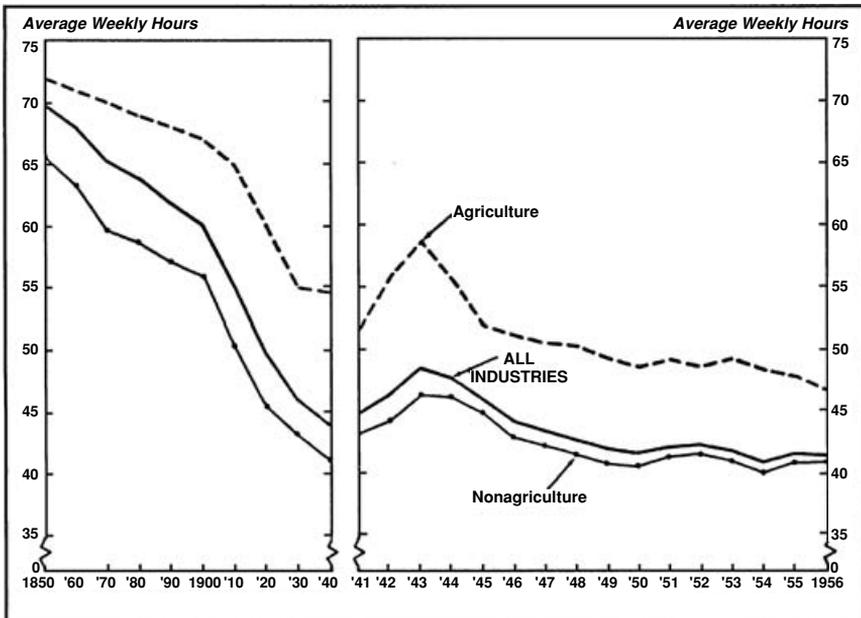
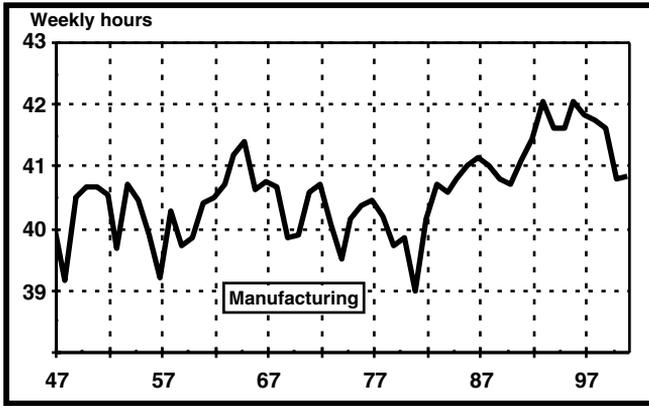
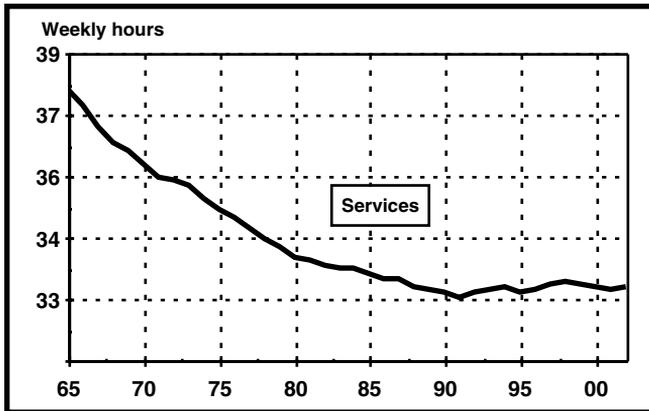


Figure 1.1. Estimated average weekly hours for all persons employed in agricultural and nonagricultural industries, 1850–1940 (ten-year intervals) and 1941–56 (annual averages for all employed persons, including the self-employed and unpaid family workers.)

Source: Zeisel (1958).



(a)



(b)

Figure 1.2. Average weekly hours worked by production workers in (a) manufacturing, 1947–2002 and (b) service industries, 1964–2002. *Source:* U.S. Department of Commerce.

comparison, average hours worked in other major countries, as illustrated in Figure 1.3, have declined markedly since 1970.

Although this suggests that there has been little, if any, expansion of leisure time in the United States, what has apparently happened instead is that work schedules now provide greater diversity. As noted by Smith (1986), “A larger percentage of people worked under 35 hours or over 49 hours a week in 1985 than in 1973, yet the mean and median hours (38.4 and 40.4 respectively, in 1985) remained virtually unchanged.”³

If findings from public-opinion surveys of Americans and the arts conducted in 1995 and earlier years by Louis Harris and Associates, Inc. are to be believed, the number of hours available for leisure may actually be declining.⁴ This view has also been supported by Schor (1991, p. 29) with

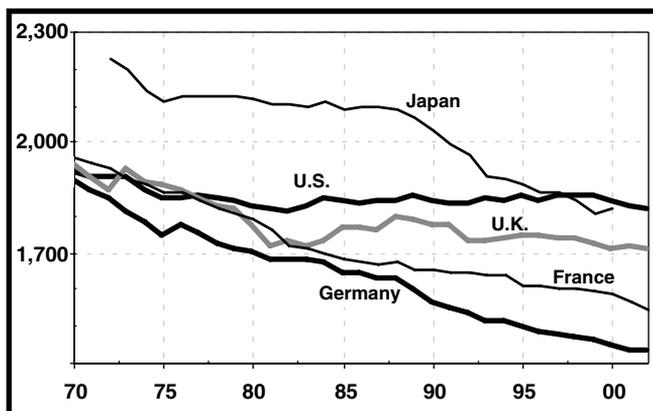


Figure 1.3. Average annual hours worked in the United States versus other countries, 1970–2002. *Source: OECD Employment Outlook.*

an estimate that, between 1969 and 1987, “the average employed person is now on the job an additional 163 hours, or the equivalent of an extra month a year . . . and that hours have risen across a wide spectrum of Americans and in all income categories.”⁵

These data also appear suspect, however, with some evidence to the contrary provided by Robinson (1989, p. 34), who has measured free time by age categories and found that “most gains in free time have occurred between 1965 and 1975 [but] since then, the amount of free time people have has remained fairly stable.” By adjusting for age categories, the case for an increase in total leisure hours available becomes much more persuasive.⁶ In addition, Roberts and Rupert (1995) found that total hours of annual work have not changed by much but that the *composition* of labor has shifted from home work to market work with nearly all the difference attributable to changes in the total hours worked by women. A similar conclusion as to average annual hours worked was also reached by Rones, Ilg, and Gardner (1997).⁷ Yet, as Jacobs and Gerson (1998, p. 457) note, “even though the average work week has not changed dramatically in the U.S. over the last several decades, a growing group of Americans are clearly and strongly pressed for time.”

In all, it seems safe to say that for most middle-aged and middle-income Americans leisure time is not expanding.⁸ However, no matter what the actual rate of expansion or contraction may be, there has been a natural evolution toward repackaging the time set aside for leisure into more long holiday weekends and extra vacation days rather than in reducing the minutes worked each and every week.⁹ Particularly for those in the higher-income categories – conspicuous consumers, as Veblen would say – the result is that personal-consumption expenditures (PCEs) for leisure activities are likely to be intense, frenzied, and compressed instead of evenly metered throughout the year. Moreover, with some adjustment for cultural differences, the same pattern is likely to be seen wherever large middle-class populations emerge.

Table 1.2. *Time spent by adults on selected leisure activities, 1970 and 2000 estimates*

Leisure activity	Hours per person per year ^a		% of total time accounted for by each activity	
	1970	2000	1970	2000
Television	1,226	1,603	46.5	46.1
Network affiliates		667		19.2
Independent stations		189		5.4
Basic cable programs		661		19.0
Pay cable programs		86		2.5
Radio	872	1,065	33.1	30.6
Home		394		11.3
Out of home		671		19.3
Newspapers	218	151	8.3	4.3
Recorded music	68	317	2.6	9.1
Magazines	170	80	6.5	2.3
Leisure books	65	93	2.5	2.7
Movies: theaters	10	12	0.4	0.3
home video		57		1.6
Spectator sports	3	15	0.1	0.4
Video games: arcade		7		0.2
home		69		2.0
Cultural events	3	7	0.1	0.2
Total	2,635	3,476	100.0 ^b	100.0 ^b
Hours per adult per week	50.7	66.8		
Hours per adult per day	7.2	9.5		

^a Averaged over participants and nonparticipants.

^b Totals not exact because of rounding. Also excludes 50 hours of Internet usage in 2000.
Source: CBS Office of Economic Analysis, Wilkofsky Gruen Associates, Inc.

Estimated apportionment of leisure hours among various activities, and the changes in such apportionment between 1970 and 2000, are indicated in Table 1.2.¹⁰

1.2 Supply and demand factors

Productivity

Ultimately, though, more leisure time availability is not a function of government decree, labor union activism, or factory-owner altruism. It is a function of the rising trend in output per person-hour – in brief, rising productivity of the economy. Quite simply, technological advances embodied in new capital equipment, in the training of a more skilled labor pool, and in the development